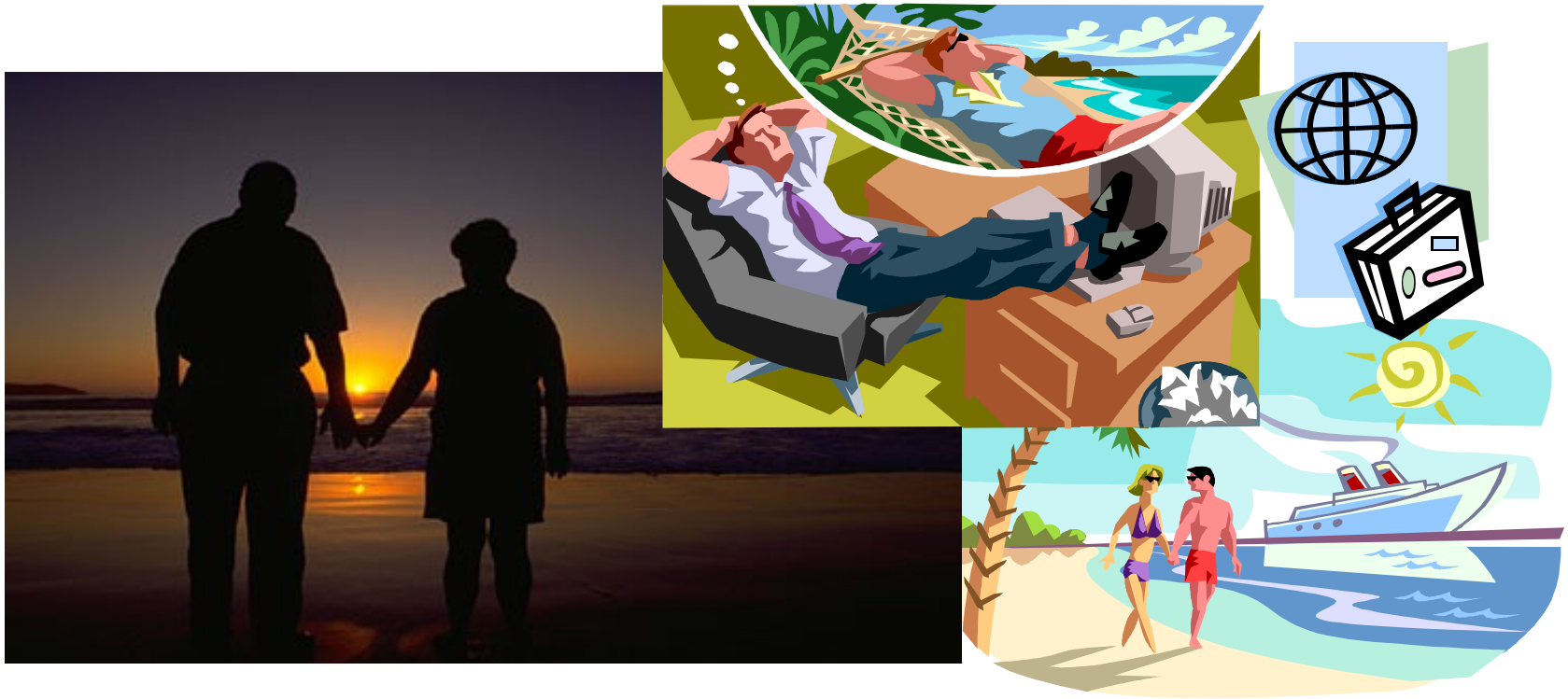
401(k) SAVINGS & INVESTMENT PLAN



No matter how near or far, your future needs your attention…, now!

It’s Your Future… Let’s Talk About

- 401(k) Savings
- Four Key Investment Terms
- Eligibility
- Your Risk Tolerance
- Enrollment
- Making Changes
- Investment Elections
- Leaving Current Employment
- Accessing Your Money
- Income Tax Liability
- Saving for Your Future
- Savings + Time + Compounding
- The Three Legged Stool
- MassMutual Information Services
- Retirement Planner
- Cruise Control & Rebalancing
- That’s All…

401(k) Savings, 1 of 5

- 401(k) savings are tax deferred savings as defined by the Internal Revenue Service (IRS)
- You can contribute up to the current IRS maximum limit on 401(k) accounts
- Every dollar you save reduces your current “taxable income”, so you pay lower “income” taxes when you contribute to your 401(k) Plan

401(k) Savings, 2 of 5

- Earnings from your pre-tax contributions are credited to your account; are automatically reinvested for you; and like your contribution, grow tax-deferred
- 401(k) Plans put more of your retirement planning in your hands
- As long as you stay in the 401(k) Plan, you can manage your savings program to fit your current budget and to achieve your goals for financial security

401(k) Savings, 3 of 5

- You decide how much to save and how to invest it
- The 401(k) Plan has many investment funds from which to choose – you can invest your savings in one of them or you can diversify your investment in percentage increments across several of the funds

  For example: You can put 10% in one fund, 30% in another, and 60% in a third, etc.

401(k) Savings, 4 of 5

- You will receive a statement of your account quarterly, so that you can follow the performance of your investment choices
- You can also see your account on-line
- MassMutual administers the NAF 401(k) Plan See general consumer information at:

  http://www.massmutual.com/mmfg/prepare/learn.html

401(k) Savings, 5 of 5

Company Matching:

- You automatically receive a company match when you contribute from one to three percent of your salary
- Financial advisors encourage investors to use “tax-deferred” and “company-match” programs like the 401(k) Plan

Four Key Investment Terms

- **Investment Return** is how much money is earned by an investment during a period of time, such as a year, a quarter, a month or a day.
- **Market Risk** is a chance that an investment will lose money or have a negative return.
- **Diversification** means investing your money in two or more different investments in order to reduce risk, while still trying to maximize return potential.
- **Asset Allocation** is your distribution of investment dollars among asset classes, such as stocks, bonds, and cash.

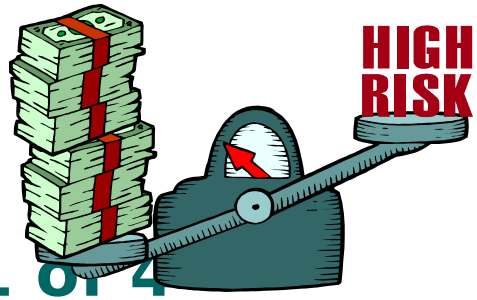
Eligibility

You can participate if you:

- Are age 18 or over
- Are a regular, full-time or part-time NAF employee

Notes:

- Non-resident aliens with no U.S. source of income are NOT eligible to participate in this 401(k) Plan
- You must be a citizen of the United States to participate
- Contributions must be made by payroll deduction
- You may join within 30 days of hire. Current employees may join during open enrollment periods. *(Open enrollments occur in the first month of each quarter.)*



Your Risk Tolerance, 1 of 4

Typical Investment Risks:

Higher Gain Potential
Higher Risk

Stock Funds

Moderate Gain Potential
Moderate Risk

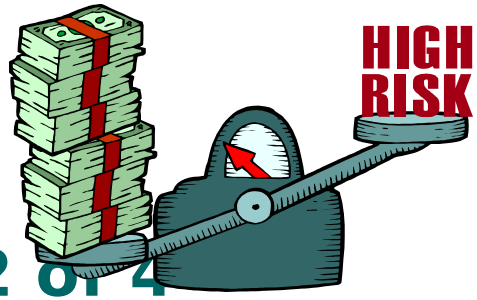
Bond Funds

Money Market Accounts

No Gain Potential
No Risk

Don’t save

Your Risk Tolerance, 2 of 4

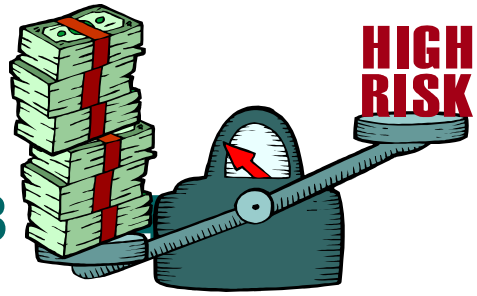


Investor Profile:

- Complete an investor profile quiz to examine your:
  - Investment timelines
  - Current age and retirement timelines
  - Risk tolerance regarding your money
  - Short and Long Term Financial Plans
  - Current financial situation
- This short profile quiz, provided by the investment company that administers the NAF 401(k) Plan, will help you choose an appropriate investment strategy that is best for you at this point in time
- Remember – as your personal/financial condition changes, you can change your investment strategy whenever appropriate

Your Risk Tolerance, 3

Risk Profiler Quiz



Don’t know which investment strategy is right for you? By taking the Risk Profiler Quiz, you can find out!

Time Horizon

1. **I plan to withdraw my money in 3 years or less and do not want to lose any of it:**
   - ○ Yes
   - ○ No
2. **My current age is:**
   - ○ Less than 40
   - ○ 40 - 54
   - ○ More than 55
3. **I expect to retire:**
   - ○ Not for at least 20 years
   - ○ In 5 to 20 years
   - ○ Within 5 years

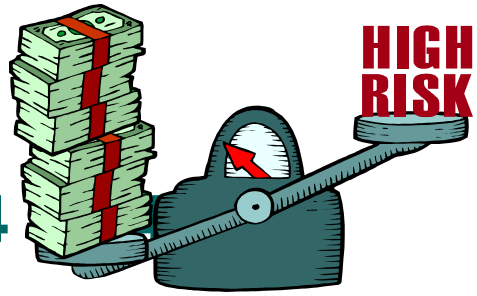
Long-Term Goals

4. **For this investment, my goal is:**
   - ○ To grow my assets aggressively.
   - ○ To grow my assets with caution.
   - ○ To avoid losing money.
5. **What would I expect from this investment over time?**
   - ○ To generally keep pace with the stock market.
   - ○ To make a decent profit, but probably trail the stock market.
   - ○ To have a high degree of stability, but only modest profits.

Short-Term Goals

6. **Which of these statements would best describe your attitude about the performance of this investment over the next three years?**
   - ○ I can live if I lose money.
   - ○ I better at least break-even.
   - ○ I better end up with at least a little profit.
7. **Which of these statements would best describe your attitude about the performance of this investment over the next three months?**
   - ○ Who cares? One calendar quarter means nothing.
   - ○ If I suffered a loss of greater than 10%, I'd get concerned.
   - ○ I can tolerate only small short-term losses.

Your Risk Tolerance, 4
Conservative Investor - Sample



Sample Asset Mix

70% Cash/Bond
30% Stock

This asset mix can be implemented using the following Custom Portfolio provided by MassMutual. MassMutual categorizes investment line-up and allocates the specific percentages to this sample asset mix.

MassMutual Custom Portfolio

Asset Allocation

asset class		investments	
Bond 35%			
Fixed Income	**35%**	MM Core Bond (Babson)	35%
Cash 35%			
Short-term/Stable Value	**35%**	Guaranteed	35%
Stock 30%			
Large Cap Value	**6%**	MM Large Cap Value (Davis)	6%
Large Cap Core	**6%**	MM Indexed Equity	3%
		Main Street (Oppenheimer)	3%
Large Cap Growth	**7%**	Cap Appr (Oppenheimer)	4%
		MMAggressive Growth(Sands Cap)	3%
Small/Mid Cap Value	**3%**	MM Small Cap Equity (Babson)	2%
		MM Focused Val (Harris)	1%
Small/Mid Cap Growth	**3%**	MM Sm Cap Gr (W&R/Wellington)	3%
International/Global	**5%**	MM IntlEq (Oppenheimer)	5%

Sample

To Take Action

- **Implement this portfolio**
  Apply the investment selection of this portfolio to your account.

Enrollment

- Complete an Enrollment Form and indicate:
  - The percentage of your wages you desire to contribute
  - The funds in which you wish to invest
  - A beneficiary
- Return the completed enrollment form within the next calendar quarter
- You will become a 401(k) Plan member beginning the next quarter after enrolling

Making Changes

- You can change your enrollment choices after you join the 401(k) Plan by submitting a completed Participant Change Form to the Benefits Representative or, in some cases, by going on-line
- You can:
  - Increase/decrease the amount of your contribution (benefits rep)
  - Stop savings at any time and start again at the beginning of any calendar quarter (benefits rep)
  - Change your investment choices at any time on the Web
  - Make *new* elections for money already in the Plan (Web)
  - Change your beneficiary designation (benefits rep)
  - Change your address (benefits rep)

Investment Elections, 1 of 2

- You can contribute between 1% and 100% of your annual base pay up to the IRS specified “maximum” – for 2006, this is $15,000
- If you reached age 50 by January 2006 (or you are older) you can make additional contributions up to $5000 ($20,000 max)

Note: Since saving in this Plan allows you to reduce your taxable income, federal regulations limit the amount you can save in the 401(k) Plan each year.

Investment Elections, 2 of

- Your contributions are invested in the funds you choose
- You may change your investment options
- You can transfer your existing balance to other investment options
- If you don’t select one or more investment options, your contributions go into the Money Market investment option.

Leaving Current Employment, 1 of 3

- You will receive the money in your account, if you leave your NAF employment for:
  - Retirement
  - Disability
  - Involuntary Termination
  - Voluntary Separation from Employment
- Your investments will be “valued” and “locked” the date of your termination
- Should you have $10,000 or more in the account, you may elect to maintain the account. However, you may NOT make contributions or change any Plan options.

Leaving Current Employment, 2 of 3

- Your balance will be paid, in a lump sum approximately 60-days after receiving your last paycheck
- Unless you have reached age 59½, you will owe current income taxes and may also have to pay an excise tax on your payment
- You may avoid these tax payments if you roll your account into a different tax deferred plan [new 401(k) / IRA]
- Regardless of when you take contributions after age 59½, you will owe taxes on this “income” – remember, your contributions are “tax deferred”

Leaving Current Employment, 3 of 3

- You may elect to roll your account to a different tax advantaged account to avoid paying taxes at closeout
- Your beneficiary will receive the balance of your account if you die before it is paid to you
- A trust must be established for beneficiaries who are minors – trust establishment is your responsibility

Accessing Your Money, 1 o

- Because of the tax advantages of pre-tax savings like the 401(k), federal law limits withdrawals from the Plan while you are still working
- The committee that administers the Plan must approve all withdrawals to ensure withdrawals meet federal requirements
- Only one approved withdrawal is allowed per calendar year

Accessing Your Money, 2 o

- Before you reach age 59½, you can only withdraw money from your account to help resolve defined financial hardships:
  - The purchase of your first primary home
  - Major medical expenses, not covered by insurance
  - Foreclosure or eviction from your primary home
  - College tuition for yourself or a dependent

Accessing Your Money, 3 o

- You may only withdraw contributions, your “company match” is not available
- You may only withdraw the amount needed to meet your hardship expenses; however the withdrawal must be at least $1000.00
- After you make a hardship withdrawal, you must stop contributions to the Plan for 6 months

Accessing Your Money, 4 o

- You may receive your account balance at job termination – additional requirements may apply
- After age 59½, you can make withdrawals for any reason
- The IRS requires that you withdraw at least a minimum amount, known as a required minimum distribution, from your retirement accounts annually, starting the year you turn age 70½

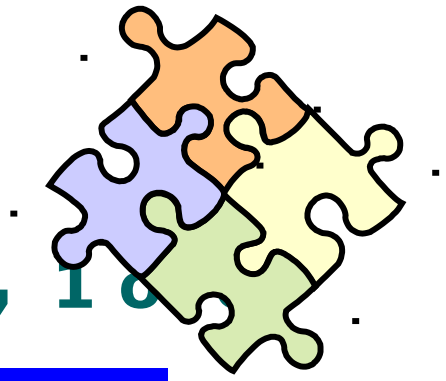
Income Tax Liability, 1

- You will owe current income taxes on any money you take out of your account
- You will pay an additional 10% penalty tax on any money withdrawn before age 59½; this includes hardship withdrawals.
- You will NOT pay the 10% penalty tax if early withdrawal is made because of death, disability, or early retirement

Income Tax Liability, 2

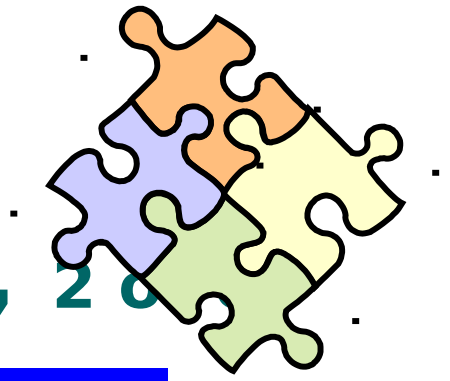
- When you receive final pay out from the Plan, you can transfer it to an IRA account and continue deferring taxes on it
- You will receive information about tax implications of your pay out or withdrawal when you apply for it
- You may find it helpful to talk with a tax advisor before your account is paid out

Saving for Your Future, It's



- The 401(k) Plan is designed to help you save for a long-term goal like retirement – the longer you leave your money in the Plan, the greater your final benefit
- Social Security is intended to "supplement" your retirement, representing perhaps 25% to 40% of your pre-retirement income

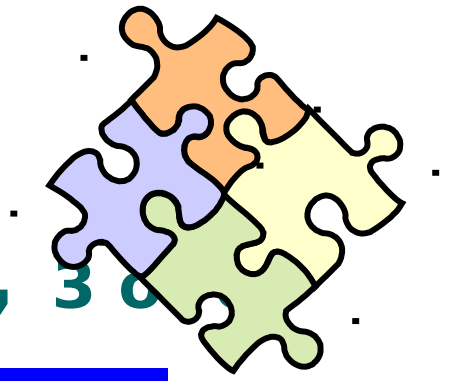
Saving for Your Future, 2 of



Other savings / investment options include:

- Company Retirement Plan
- Keoghs
- IRAs
- Mutual Funds
- Real Estate
- Savings:
  - Money Market Accounts
  - Certificates of Deposit (CDs)
  - US Treasury Bills
  - Passbook Savings
  - US Savings Bonds
  - State/Local Bonds
  - Corporation Bonds
- Stock Market Investments
- Insurance Programs

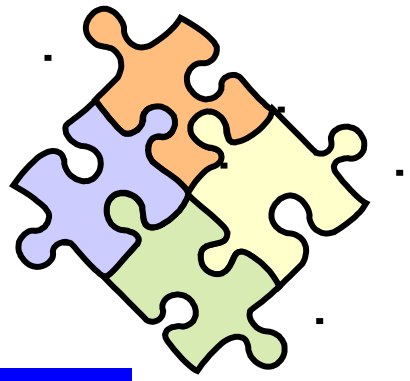
Saving for Your Future, 3 of



- Prepare for your future – treat lifelong savings as one of your monthly obligations – pay now and each month for your future security
- Seek professional assistance
- Read about savings, retirement planning, and managing your finances
- Take classes – attend seminars
- Use the web for information and tools
  - E.g., **http://www.youngmoney.com/calculators/retirement_planning/401k_savings**

Saving for Your Future,

4 of 6 Small Amounts Add Up

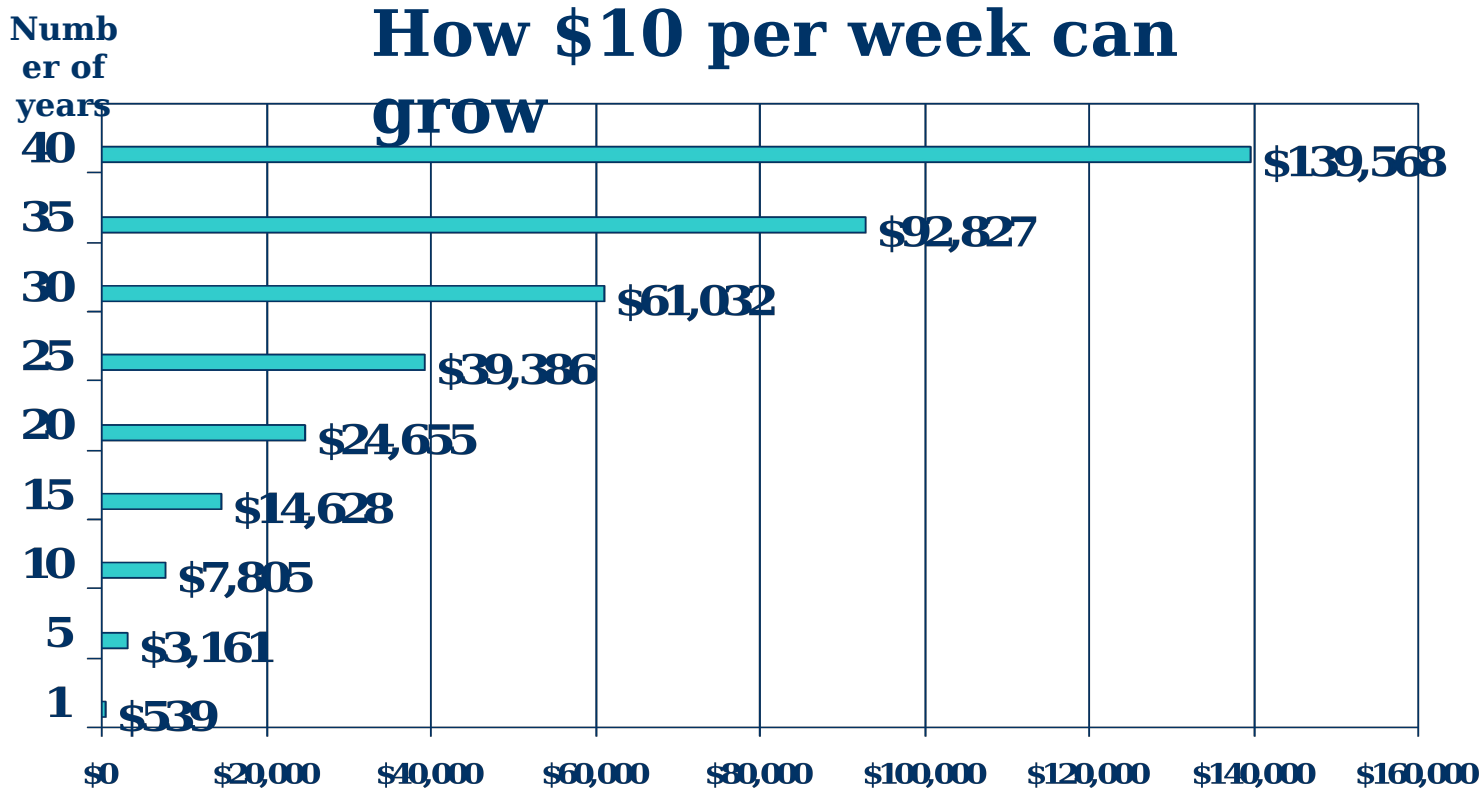


- How much do you spend each week?
  - Fast food/restaurants
  - Coffee/soda/other beverages
  - Snacks (e.g., vending machine)
  - Pizza delivery
  - Magazines
  - Movies

Shifting a portion of money to your savings can mean more money for your retirement!

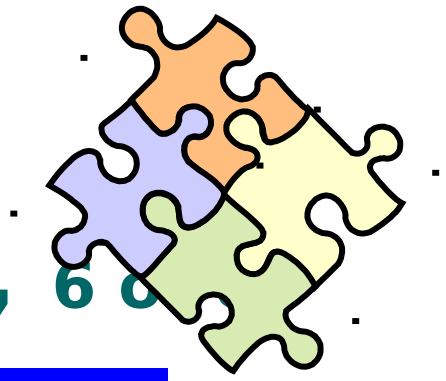
Saving for Your Future, a

Small Amounts Add Up



Assumed rate of return is 8%. Hypothetical example for illustrative purposes only. Not intended to reflect the actual performance of any specific investment. Individual experience will likely vary.

Saving for Your Future, 6 o

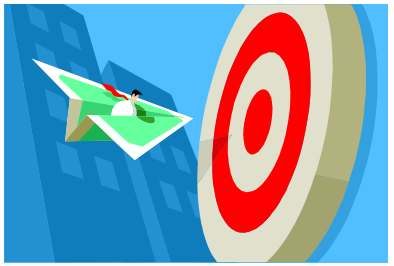


Resource Examples:

- *Financial Peace*, Dave Ramsey, Viking Penguin, New York, NY, 1997; www.daveramsey.com
- *The Millionaire Next Door*, Thomas Stanley and William Danko, Longstreet Press, Marietta, GA, 1996
- *Personal Financial Planning Guide*, Ernst & Young, John Wiley and Sons, New York, NY, 2000, and *Retirement Planning Guide*, Ernst & Young, John Wiley and Sons, New York, NY, 1997
- Forbes Magazine – www.forbes.com
- Money Magazine – www.magazines.com (for Wall Street Journal, Money, The Economist, Kiplinger's Personal Finance, Business Week, Financial Times, Business 2.0, Barron's, Fortune, Entrepreneur, etc.)
- Wall Street Journal – wallstreetjournal.com and www.wsj.com/home
- Morningstar Financial Services -- www.morningstar.com
- CNN–Money, www.money.cnn.com
- Microsoft/MSN Money – www.moneycentral.msn.com
- Quicken Financial Planning Software – www.quicken.co
- Smart Money – www.smartmoney.com
- Yahoo! Finance – www.finance.yahoo.com
- AOL Personal Finance – www.finance.aol.com

Check out your library, your favorite bookstores, and/or hunt the web. A recent Goggle® search for "money" yielded 270 million "hits"; "retirement planning" 14.7 million hits; "investment" 125 million; "Savings" 62.5 million; "Financial Advice", 863 thousand, etc.

– ***one can certainly find help and information on the Internet!***

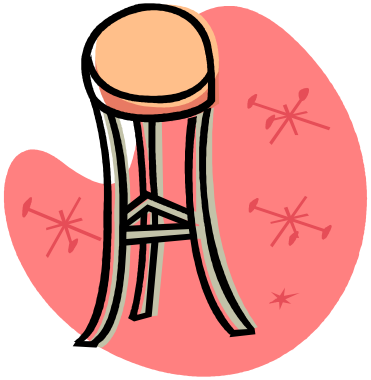


Savings + Time + Compounding

EXAMPLE	$500/mo @ 4%	$500/mo @ 8%
10 Years	73,624.90	91,473.02
20 Years	183,387.31	294,510.21
30 Years	347,024.70	745,179.72
40 Years	590,980.67	1,745,503.92

"Past performance is not indicative of future results".

The Three Legged Stool



Components of NAF Retirement:

- Defined Benefit or Pension Plan
  - Employees contribute 1% of salary
  - Pension Benefit determined by preset formula - years of service, annual benefit accrual, high three years salary
- Defined Contribution or 401(k) Savings Plan
  - Amount available for Retirement determined by amount contributed and investment returns generated by investment options chosen by the employee
- Social Security
  - Retirement supplement

MassMutual
Information Services

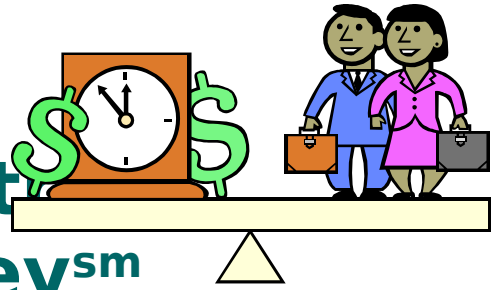
- The Journey℠ at **www.massmutual.com/retire**
- FLASH℠ automated telephone services:
  1-800-743-5274
  - -- Customer Service Representatives 8 a.m. to 8 p.m. ET
- Retirement Specialist Group:
  1-888-526-6905
  - -- Assist with rollovers and retirement planning

MassMutual
Retirement Planner

- Provides an analysis of your ability to reach your retirement income goal
- Determines a plan to help you reach your goal
- Provides asset allocation guidance to give you a truly diversified portfolio

Available on The Journey℠, under the "Solutions" tab – Guided Solution

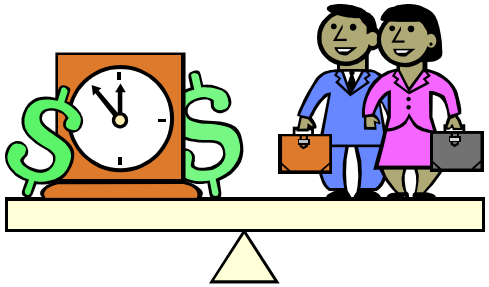
MassMutual – Cruise Cont
Available Through The Journey℠



www.massmutual.com/retire

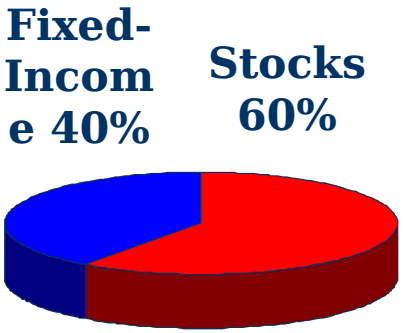
- You can automatically rebalance your account to match your investment strategy
- Available 24 hours a day, 365 days a year.
- May select a model investment strategy, or set up your own strategy
- You initiate the rebalancing process
- Can turn rebalancing on and off

You can rebalance anytime using The Journey℠ or FLASH℠

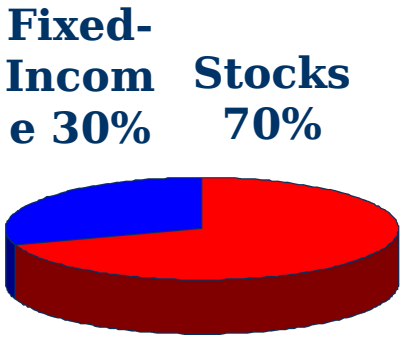


MassMutual
Why Rebalance?

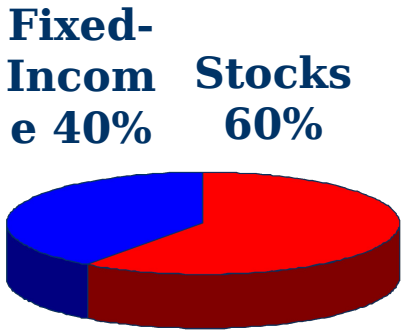
Market ups & downs can change your asset allocation over time. Rebalancing can bring your investments back to your original asset allocation.



Original Asset Allocation



Asset Allocation Over Time



Rebalanced Asset Allocation

[Note: Asset allocation portfolios are automatically rebalanced for you on a periodic basis.]

That's all for now…

Your future security deserves your attention right now, what are you going to do about it?

Suggestions and requests to:

Commander, Navy Installations Command (CNIC)
F&FR Training Branch, N947
Millington, TN 38055-6540

Com: (901) 874-6727 DSN: 882-6727
helen.turner1@navy.mil

Whatever your savings and investment strategies, do your homework, knowing that past financial performance does not guarantee similar future results!